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TAGS: EIND ECON ETRD AS

SUBJECT: GENERAL MOTORS SUBSIDIARY LEFT TO FEND FOR ITSELF

REF: A. 08 CANBERRA 1134

¶B. 08 MELBOURNE 137

¶C. 08 MELBOURNE 125

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Classified By: Justin L. Kolbeck, Pol/Econ Officer for Reasons 1.4(b),
(d)

Summary

¶1. (C/NF) General Motors' (GM) Australian subsidiary and one of the country's largest manufacturers, Holden is scraping by in the competitive Australian automotive market even though financing from its parent company has all but dried up. While Holden is looking forward to opportunities such as the launch of its small car and soon to be announced exports to U.S. police forces, Holden is expecting another tough year. End summary.

Finance Woes and a Tough Year Ahead

¶2. (C/NF) GM Holden's Chairman and Managing Director Mark Reuss told Consul General on June 12 that Holden has been operating largely on its own since GM accepted U.S. Treasury assistance. While Holden will remain a part of the new GM, the Australian subsidiary was "fenced off" from the parent in an attempt to prevent U.S. tax dollars from flowing out of the United States. This forced Holden to dramatically scale back production at its South Australian factory and to seek short-term (most paid back within 24 hours) operating capital from GM finance facilities in Mexico and the European Union among others. Characterizing the GOA as "extremely cooperative," Reuss said the GOA also assisted Holden in raising money through commercial banks such as the Australia New Zealand Bank (ANZ). The Australian banks, though, have been averse to lending to GM Holden as a standalone facility.

¶3. (C/NF) According to Reuss, the next 10-12 months will be "very tough" for Holden. The company's export volume to the six Gulf Cooperation Council (GCC) states - Holden's primary export market - is down 50 percent. Holden will continue to "scrape by" until production starts for the GOA-sponsored small car initiative in October 2010. In addition, Reuss confided on a close hold basis that Holden will soon begin to export vehicles rebadged as Chevrolet police cruisers to U.S. police forces. Reuss calculates that Holden's future U.S. police car business (as many as 80,000 units) will exceed its traditional GCC and former U.S. Pontiac exports combined, at least for the short term.

Holden's Future

¶4. (C/NF) Reuss remains very sensitive to GOA concerns about job losses because Holden received A\$179 million (US\$143 million) from the GOA to produce a 4-cylinder car, the Cruze, starting in October 2010. In addition, he hinted that maintaining a good relationship with the GOA will be critical should Holden be required to ask for further support.

Although Reuss anticipates very low levels of production over the next year, he intends to retain much of Holden's workforce until volumes pick up with the launch of the Cruze and the police car exports.

¶5. (C/NF) Looking to the long-term, however, Holden's workforce has approximately 1,000 too many employees given projected demand. Fewer hours and difficult shift work have led many employees to accept voluntary separation packages and Reuss believes this will eventually lead to a right-sizing of Holden's workforce over the next 24 months.

¶6. (C/NF) Holden is considering a co-investment with Ford Australia to create a locally produced 8-speed hybrid transmission. He went on to say that this could be the first of other collaborative efforts between the two Australian subsidiaries. Reuss is also looking to expand Holden's export program by becoming a regional production center for small right-hand drive vehicles to countries such as Thailand, South Africa and others. He acknowledged low consumer satisfaction ratings as a long-term challenge for Holden, but argued that Australia suffers from a lack of publicly available quality data, such as that provided by JD Power and Associates, on automobiles.

Supply Base Threatened

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¶7. (C/NF) According to Reuss, Australia's automotive components market is the industry's "Achilles heel." Recent GOA assistance to automotive parts manufacturers has helped keep these businesses afloat, but has not led to badly needed reforms in the fragmented and inefficient sector. Given that many of these vendors have been unable to secure the financing necessary to consolidate, Reuss believes that it is only a matter of time until some of them implode.

¶8. (C/NF) On June 15, Trident Plastics, a South Australia based automotive parts supplier announced that it will go on sale this week to ensure that it continues to operate. If this trend continues, Holden is considering purchasing the assets of key suppliers to maintain its supply base. Holden is also looking to Korean parts manufacturers as a backup to the troubled Australian market. (Note: The GOA mandates that 30 percent of components come from local suppliers as a condition for receiving government assistance (reflets). End note.)

Comment

¶9. (C/NF) Reuss appeared frustrated that GM had effectively left Holden in the financial wilderness once it accepted U.S. Treasury money. He described the period of December to February as "very dark" and said that he intends to keep at least some of Holden's future profit in Australia for reinvestment rather than returning it to GM. Although Reuss and his team were optimistic about the introduction of the Cruze, Australia's automotive market is already saturated with small, fuel efficient cars dominated principally by Mazda and Toyota. End comment.

THURSTON